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Osnovnyye fondy promyshlennosti i ikh ispol'zovaniye, by Lazar M.  
Kantor, Lenizdat, 1947.

#### PLANNING CAPITAL WORK IN THE USSR

The plan of capital work is one of the most important parts of the overall industrial plan. The plan of capital work sets forth the following: total volume of capital work; breakdown of capital expenditures by types of work (new construction, expansion and reconstruction, and restoration); breakdown of capital expenditures by individual branches of industry, type of production, and region; volume of new fixed assets to be put into service; planned reduction in construction costs; and amount of financing needed for capital work.

The principal item in the plan of capital work is the volume of capital work. By volume of capital work is meant the cost of all types of capital work which are to be performed in the plan year (or quarter). It is calculated in estimate prices of the chosen accounting year (according to the decree of the Council of Ministers USSR, of 13 December 1946, estimates for construction are now made up in prices and norms of 1945). Thus, the volume of capital work shows the physical volume of construction and is not the same as the amount of money provided to finance capital construction. The latter takes into consideration the planned reduction in construction costs, as well as expenditures connected with construction of later years. The relationship between the volume of capital work and the amount of money for financing it can be determined in the following way: the amount of money for financing capital work is equal to the volume of capital work minus the reduction in construction cost, minus the cost of the unfinished work carried over to the next year, minus previous years' expenditures on construction which is going on in the plan year, plus expenditures for construction for later periods (e.g., advance payments), plus payment for work performed (but not paid for) in the year just past, plus other expenditures necessary in carrying out the program of capital construction.

The volume of capital work includes: (1) the cost of construction work which is to be carried out during the plan year, the so-called "net" (chistyy) construction (i.e., the erection of all types of buildings and technical constructions), expenditures for land reclamation, and construction of foundations

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for equipment; (2) cost of equipment, power installations, various kinds of "inventory" (inventar') office equipment, fire extinguishers, etc.; means of transport, and instruments classified as fixed assets; expenditures for transportation to the construction site are also included in the cost of equipment, "inventory," etc.; (3) the cost of installing all types of equipment; (4) expenditures on planning, geological and geodetic work, and research undertaken in the plan year both for construction projects of that year and for those of subsequent years.

Expenditures for preparing an enterprise to start production and the actual initiation of production (starting expenses) are not included in the volume of capital work at present. Those expenditures must be provided for in the financial plans of the various enterprises.

The volume of capital work is determined by many factors which require many complex economic and technical calculations.

The main factors which determine the volume of capital work are as follows:

1. Planned volume of production. The production program of industry is the chief factor determining the volume of capital work. Assuring the established rate of industrial development is the most important task of the plan of capital work and the basis for setting the volume of work.

2. Productive capacity of existing fixed assets. As a rule, most of the planned production program can be fulfilled with existing equipment. Therefore, existing productive capacity must be carefully studied when determining the need for new equipment.

3. Reserve capacity planned. There must be capital construction not only to carry out the production program, but also to create reserve productive capacity. Each enterprise must strive not only to fulfill its plan but also to exceed it. Exceeding the plan and meeting it ahead of schedule are normal phenomena in the USSR. Sometimes it is necessary to change the production plan after it is in operation. Individual branches of industry are often given additional assignments during the year. Finally, reserve productive capacity is needed in case of accidental damage to equipment or other unpredictable eventuality.

4. Scale of preparation for future construction, as well as capital work on projects which will continue after the plan year. Since the construction of certain projects takes more than one year, it is impossible to limit capital work to providing for the needs of the plan year alone.

5. Volume of unfinished construction carried over to the plan year. Many constructions which are scheduled to enter production in the plan period will have been under construction in the preceding years. Expenditures required to complete construction of these projects may be very small, while increase in productive capacity may be very great.

Thus, the volume of capital work is equal to the cost of the capacity being newly created, plus expenditures for construction of later years, minus the cost of construction carried over from previous years.

The above-mentioned factors determine only the need for capital expenditures, i.e., the need for a certain volume of capital work. However, proper facilities for carrying out the needed volume of capital work must be available, i.e., there must be a certain quantity of building materials, equipment, labor and capital. In other words, in addition to the enumerated factors, availability of necessary materials, labor, and capital determines the volume of capital work. The plan of capital work of the nation must be supported by the balance sheets of equipment, building materials, and labor, and also by the financial plan.

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The balance sheet of equipment shows the direct connection between the requirements for equipment and production of equipment. This balance sheet is determined, first, by the volume of capital work, and, second, by maximum utilization of the existing productive capacity of the machine-building industry and by facilities for its further expansion. Of great importance to the construction of the balance sheet of equipment is the relationship between the individual component parts of the volume of capital work ("net" construction, the cost of equipment, its installation, etc.). Knowing the proportion of equipment in the total volume of capital work for the various branches of industry, one can determine the need for different types of equipment for capital construction.

The balance sheet of building materials is made up in the same way. From the proportion of "net" construction in the total volume of capital work, it is possible to determine the requirements for building materials by employing consolidated (ukrupnennyye) requirement norms. Consolidated requirement norms are per million rubles of "net" construction in the case of basic construction materials, and per thousand rubles in the case of local materials.

These methods make it possible to obtain orientation figures suitable only for preliminary plans of material-technical supply. A more accurate method of determining requirements for equipment and building materials is that based on the data of technical plans and estimates (or financial estimates).

#### Effectiveness of Capital Investment

Determination of the volume of capital work and its breakdown into new construction, expansion and remodeling, and restoration must be based on maximum effectiveness of expenditures.

The effectiveness of capital expenditures is measured primarily by the speed of construction. The shorter the construction period and the quicker the construction is completed, the more effectual the capital investment is.

To reduce the construction period to the minimum it is necessary to concentrate labor, materials, and equipment on a limited number of constructions. At the same time, it is necessary to obtain the maximum productive effectiveness of capital expenditures, i.e., to obtain the largest possible amount of product per unit of capital invested. It is possible to ascertain this effectiveness only for different construction projects in the same branch of the economy, inasmuch as the productive effectiveness of enterprises of different branches of the economy is not comparable. Let us assume that the erection of a certain construction in one variant requires the expenditures of 2 million rubles and that the expected annual output is 1.5 million rubles. In another variant, the same construction requires an investment of 3 million rubles, while the expected annual output is 2.5 million rubles. In the first case each ruble invested yields 75 kopeks of product, and in the second case, 83 kopeks.

Finally, the effectiveness of capital investment is measured by the expected cost per unit of production in the projected construction variants.

#### Above-the-Limit and Below-the-Limit Construction (Sverkhlimitnoye i nizhelimitnoye stroitel'stvo)

There are two kinds of capital construction--above-the-limit and below-the-limit.

The decree of the Council of People's Commissars of 23 October 1934 established, for the various branches of the national economy, the minimum costs for individual capital work projects; projects must be individually considered and

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approved in the presence of these costs by the Council of Ministers USSR. Above-the-limit capital construction refers to those constructions the cost estimate of which is not below the minimum set for the branch of industry in question. In this case the Council of Ministers USSR considers and approves the plan of construction, regardless of whether the enterprise to be constructed comes under union, republic, or local authority.

In the case of basic industry, above-the-limit construction relates to construction projects the cost estimate of which is not below the following limits (in million rubles):

Coal enterprises	3.0
Petroleum refining	4.0
Peat cutting	1.5
Shale enterprises	1.5
Nonferrous metallurgy enterprises	4.0
Ferrous metallurgy enterprises	5.0
Enterprises of the basic chemical industry	3.0
Rubber industry enterprises	3.0
Brick enterprises	1.0
Enterprises producing lime, chalk, and alabaster	1.0
Enterprises producing new construction materials	0.5
Electric power plants	5.0
Enterprises producing machinery and electrical equipment	3.0
Textile enterprises	3.0
Sewing enterprises	2.0
Enterprises producing leather, shoes, and leather substitutes	2.0
Glass and porcelain enterprises	1.5
Woodworking enterprises	1.0
Enterprises of the sugar industry	3.0
Meat-processing enterprises	3.0
Fishing industry	1.0

In addition, above-the-limit construction includes the construction of all new enterprises or shops (in existing enterprises), which are built for organization of new industries, regardless of their cost.

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All other constructions which do not meet these requirements come under below-the-limit construction. Here expenditures are fixed by the Council of Ministers for individual branches of industry only and not for individual projects.

Nonlimit (vnelimitnyye) Capital Work

Both above-the-limit and below-the-limit capital expenditures are expenditures which are limited, i.e., they are planned centrally and are included in combined form in the national economic plan and carried in the all-union budget.

There is, however, some capital work which is planned noncentrally and is financed from the economic organization's own funds. This is the so-called nonlimit or extra plan (vneplanovyye) capital work which is provided for by the decree of the Council of People's Commissars USSR of 19 September 1935, "Expenditures for Construction Provided for Outside the Plans of Capital Work." To simplify the procedure of undertaking minor construction and repair work and of obtaining equipment and "inventory" of minor importance, the Council of People's Commissars USSR authorized government offices, economic organizations, cooperatives, and social organizations to make, outside the plans of capital work established for them and from funds provided for by their financial plans, or from above-plan accumulations and mobilized internal resources, such expenditures as would produce immediate economic results.

Under nonlimit or extraplan expenditures the Council of People's Commissars USSR includes the following:

1. Expenditures for the acquisition, for existing enterprises, of equipment costing up to 200 rubles per unit.
2. Expenditures for repair and minor installation work in industrial enterprises (including the replacement or renovation of equipment), provided that the cost estimate of the work does not exceed 5,000 rubles per enterprise and that the work is completed within one year.
3. Expenditures for the construction or acquisition of equipment which are made from the director's fund or from profits of enterprises' utility waste shops, from the production of consumers' goods.
4. Expenditures for the restoration of property destroyed by the action of the elements up to the restoration cost of the destroyed property but not to exceed 100,000 rubles.
5. Expenditures of industrial cooperatives, invalid cooperatives, and rural consumers' cooperatives for the construction of new small enterprises and the acquisition for these enterprises of property having a cost estimate of 5,000 rubles or less, and also expenditures of these organizations for minor (construction) work in existing enterprises and for acquisition of equipment costing 10,000 rubles or less per artel or rural consumers' cooperative store.

(The decree of the Council of People's Commissars USSR and the Central Committee of the All-Union Communist Party of 7 January 1941 gave the oblast (kray) executive committees, the rayon (city) executive committees, and the councils of ministers of ASSR the right to make expenditures on the construction of rayon industry enterprises for the production of consumers' goods, building materials, and fuel above the limits set by plans of capital work. Inasmuch as these expenditures are made in accordance with decisions of local executive committees and are not included in the national economic plan of capital work, they also come under nonlimit capital investment.

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(Authorization for the construction of rayon enterprises costing up to 50,000 rubles per enterprise is given by the rayon (city) executive committee; for those costing more than 50,000 rubles, but not more than 200,000 rubles, authorization is given by the oblast (kray) executive committee or by the council of ministers of the ASSR; for expenditures from 200,000 to a million rubles, authorization is given by the council of ministers of the union republic.)

Extraplan capital investments may be made as follows:

1. By order of the director of the enterprise when the full cost estimate of the construction does not exceed 100,000 rubles.
2. Upon authorization of the chief of the main administration of the ministry when the full cost estimate of the construction exceeds 100,000 rubles.
3. Upon authorization of the ministry, with a subsequent report of this fact to the Council of Ministers USSR or to the proper union republic council of ministers, depending on whether it is a USSR or union republic ministry, when the full cost estimate of the construction exceeds 500,000 rubles.

#### Itemized Lists of Projects (titulniye spiski)

Itemized lists of projects are a component part of the plan of capital construction. They enumerate the projects to be newly built or remodeled and provide the following information: (1) designation of the projects; (2) their location; (3) year in which construction is to be started and completed; (4) by whom and when the construction plan and estimate were approved; (5) planned capacity; (6) full cost estimate; (7) work performed up to the beginning of the plan year; (8) capacity which has entered into service and expenditures written off; (9) work remaining; (10) plan of capital work and expenditures for the next year, including: (a) volume of capital work based on cost estimates, (b) capacity to be put into service, (c) value of property to be put in service, (d) date of entry into service; (11) date on which the enterprise starts operating at full capacity.

Itemized lists of projects of above-the-limit capital construction, the cost of which is as set down in the decree of the Council of People's Commissars USSR of 23 October 1934, are drawn up by ministries of the USSR and councils of ministers of union republics and are approved by the Council of Ministers USSR on the basis of the conclusions of the State Planning Commission and the Ministry of Finance USSR. Technical plans and estimates to the technical plans are approved by ministers.

Itemized lists of construction projects under union authority and with a cost estimate of less than the specified amounts are approved by ministries of the USSR. Technical plans and estimates to the technical plans are approved by the chiefs of the main administrations of ministries when the cost is 500,000 rubles or more; by the managers of trusts when the cost is 100,000 rubles or more; and by directors of enterprises when the cost is less than 100,000 rubles.

Itemized lists of construction projects under republic and local authority, the cost estimate of which is less than the amounts specified by the decree of the Council of People's Commissars USSR of 23 October 1934, are approved by the councils of ministers of union republics or by oblast (kray) executive committees, depending on the cost of the project. (The method of approving itemized lists of construction projects of the Council of People's Commissars RSFSR was established by decree of the Council of People's Commissars RSFSR on 4 March 1937.)

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Planning Entry Into Service

The volume of fixed assets entering into service is frequently not the same as the volume of capital work. Individual projects are under construction for 2 or 3 years, and therefore a part of the capital work will inevitably enter into service in later periods. On the other hand, many constructions started in previous periods will, as a result of construction during the plan period, become fixed assets during the plan year. It is essential to put as much capital work in service as possible. This can be achieved by proper organization of construction and by maximum reduction of construction time. On an enterprise or main administration level, the volume of completed projects put in service is determined from data of the various construction work plans and schedules. However, when planning capital work for industry as a whole, it is very difficult to determine the volume of entry of fixed assets into service in this way, because there are no accurate schedules or even plan data for many construction projects, especially the small ones.

The simplest method of determining the volume of fixed assets to be put in service is to determine the ratio of fixed assets put in service to volume of capital work for the preceding year (or quarter), and apply this ratio to the plan year (or quarter), adjusting the ratio for peculiarities of the plan period which may reduce the time needed for construction and make ratio of the plan period different from that of the preceding period (e.g., a larger proportion of small and medium projects, high-speed construction, etc.). For brief time intervals the ratio of entry into service to the volume of capital work can hardly change very much.

In the postwar Five-Year Plan the amount of capital investment is set at 157.5 billion rubles (in 1945 prices). The ratio of fixed assets put into service during the last prewar years constituted 80-90 percent of the total capital investment (see Appendix B). On the basis of this ratio, it is reasonable to assume that the volume of fixed assets to be put into service during the Fourth Five-Year Plan will amount to 130 billion rubles.

The plan for the entry of fixed assets into service is made up of the following data: (1) cost of projects to be put in service, (2) capacity to be put in service, (3) date of entry into service, and (4) volume of production which will be obtained in the plan period from the new capacity.

The following are included in the cost of projects to be put in service: (a) cost of new enterprises, residential housing, and warehouses; (b) cost of new shops, installations, and other constructions in existing enterprises; (c) cost of new equipment, transport means, draft animals, "inventory," and instruments which are to be included in fixed assets; (d) cost of tree-planting programs; (e) cost of completed geological field work and related laboratory or office work; (f) cost of auxiliary enterprises and other constructions built to service the construction projects, both during the construction period and after the projects have entered into use.

The decree of the Council of People's Commissars USSR of 17 August 1932 established the following method of acceptance and of entry into service for capital work projects: newly constructed enterprises may be put in service only after acceptance by their special acceptance commissions. Depending on the cost of the projects, these commissions are appointed either by the Council of Ministers or by ministries. The acceptance commission is composed of representatives of republic and oblast organizations, and also of the bank of capital construction concerned.

The commission gives its conclusion on the readiness of the enterprise, on the basis of an analysis of the completeness of construction and installation work, intraplant transportation, and of the adequacy of servicing by

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auxiliary shops and common transport service. An enterprise (or sections of it) is considered ready to be put in service when it can produce, in finished form with the installed equipment, all production planned in its production program. If the enterprise has some minor unfinished parts but the commission thinks it is possible to accept the enterprise anyway, the unfinished work must be mentioned in the acceptance document and specific dates for its completion indicated. The commission must give a full account of the quality of construction and installation work in the document of acceptance, and also note therein the various individual mistakes and poor work permitted in construction.

#### Appendix A. Growth of Fixed Assets in the USSR

(in million rubles at the end of the year, except for 1940, which is as of 1 January)\*

	<u>1928</u>	<u>1932</u>	<u>1937</u>	<u>1940</u>	<u>1940 (in % of 1928)</u>
Total for all industry of the USSR	10,262	22,627	57,935	81,905	798.3
Including:					
Production of the means of production	5,980	16,189	45,314	63,608	1,063.7
Production of consumers' goods	4,282	6,438	12,621	18,297	427.5
Electric power plants	706.7	1,922.7	5,696.6	7,028	994.0
Coal industry	385.5	910	2,301.8	3,061	795.0
Crude petroleum industry	574	934.7	2,248.5	2,514	437.9
Petroleum refining	80.8	295.8	770.3	--	--
Ferrous metallurgy	685.7	1,478.5	5,298.9	6,883	1,003.3
Machinery industry	1,688	4,617	--	14,637	866.1
Chemical industry	320.5	1,169	3,221.4	5,204	1,626.3
Textile industry	2,006	2,491	3,793	4,890	244.5
Sewing industry	38.8	125	233	439	1,127.6
Food and gustatory products industries	1,530.7	2,768	6,085	8,645	565.0

\*Data of the Central Statistical Administration of the State Planning Commission USSR.

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Appendix B. Capital Investment and Fixed Assets  
Entering Into Service in 1938 and 1939.

(in million rubles)

	1938		1939	
	<u>Capital Invest- ment</u>	<u>Entry Into Service</u>	<u>Capital Invest- ment</u>	<u>Entry Into Service</u>
Electrical industry and electric power plants	1,081	895	1,245	1,148
Ferrous metallurgy	1,210	1,266	1,326	1,389
Timber industry	701	656	688	769
Construction materials industry	255	236	474	418
Textile industry	1,005	920	1,040	1,069
Light industry	436	232	451	454
Food industry	1,054	888	1,292	1,191
Meat and dairy industry	409	416	470	428
Fish industry	242	227	340	326

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